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Eurozone PMI March surprise clouded by extended lockdowns

The PMI jumped to above 50 for the first time since September. This indicates that 1Q GDP could be better than expected. With lockdowns being extended into 2Q though, we do expect the rapid economic rebound to take off later

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The slight easing of measures in March caused the PMI to jump from 48.8 to 52.5. This is the first time since September that the PMI has been above 50, which signals economic expansion. We have been looking more at direction than levels of the PMI throughout the pandemic but clearly this is a sign that the downturn has softened over the course of 1Q, which bodes well for the GDP reading.

The manufacturing sector seems to be in boom territory at the moment. An increase to 63 marks the highest reading ever in the manufacturing PMI, which was led by Germany but the rest of the eurozone also saw production pick up markedly. New orders increased in March, with export orders growing especially quickly, indicating that the eurozone profits from the rest of the world being much more open in this phase of the pandemic. With backlogs of work increasing, manufacturing is set for a strong start to 2Q as well.

Service sector performance was much more subdued obviously, but also increasing. We note that the jump from 45.7 to 48.8 reflects, in part, the easing of measures across the eurozone, meaning that the recent wave of extended lockdowns does not bode well for further service sector recovery in the near term.

Today's PMI surprised but still confirms our expectations of another contraction in GDP in 1Q. But with many large economies extending and even tightening restrictive measures, the rebound in eurozone economic output will be delayed further. We still target 2Q as the start of the recovery but expect the pace of the GDP rebound to really pick up in the second half of the year.

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